



Office of the City Auditor

Procurement Card Program Report No. 0702

December 3, 2007

Cardholders comply, overall, with regulations governing the use of Procurement Cards and control activities are working as intended.

CITY COUNCIL

Mayor
Mary Manross

Council
Betty Drake
Wayne Ecton
W.J. "Jim" Lane
Robert Littlefield
Ron McCullagh
Tony Nelssen



**Office of the
City Auditor**

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December 3, 2007

To the Most Honorable Mary Manross, Mayor
and Members of the Scottsdale City Council

Transmitted herewith is a report on the Procurement Card Program, Audit No. 0702.

We would like to thank staff in the Financial Services Department as well as staff in other areas of the organization that responded to questions during the audit. Their cooperation and assistance during the audit was invaluable.

If you need additional information or have any questions, please contact me at 480-312-7756.

Respectfully submitted,

Cheryl Dreska, CPA, CIA, CFE, CGFM, CISA, CISSP
City Auditor

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EXECUTIVE SUMMARY

An audit of the Procurement Card Program (Program) was included on the 2007 Audit Plan. The objective of the work was to verify compliance with City procurement rules and regulations. We found, overall, that the Program is functioning as set out in Administrative Regulation (AR) 220, Purchasing Card Usage, and the Purchasing Card Guide.

AUDIT RESULTS

Cardholders comply, overall, with regulations governing the use of Procurement Cards and control activities are working as intended.

Criteria: AR 220 and the Purchasing Card Guide.

Condition: No material exceptions were found. Each Transaction Log (Log) reviewed included:

- Cardholder signature/date
- Supervisor signature/date
- An original statement
- Original, detailed receipts
- Required authorizations

As well:

- The totals agreed with the statement.
- There was evidence of reconciliation within ten days of statement receipt.
- There was evidence of a Purchasing date stamp within twenty days of statement receipt.
- There were no split transactions to avoid dollar limits.

Cause: Controls developed by management.

Effect: Reasonable assurance of compliance.

Management's complete response can be found in Appendix A.

BACKGROUND

Procurement Cards have been used to purchase goods and services in the City since 1996. Responsibility for the Program falls to the Financial Services Department and currently 356 City employees have a Bank of America MasterCard¹ that can be used as a payment method in-person at stores or via online, mail order, telephone, or fax. Each cardholder is responsible for transactions made with the Card and for keeping it secure while in their possession. Guidelines state that personal use, fraudulent, or intentional misuse of the Card will result in immediate revocation of privileges and may subject a cardholder and supervisor to disciplinary action including termination.

Control activities include pre-set product categories that control the type of goods and services that can be purchased, pre-set transaction limits² and cycle limits,³ written Purchasing Card Agreements that must be signed by the cardholder as well as the cardholder's supervisor, mandatory training, and justification of the ongoing need for a Card. As well, procedures require a monthly reconciliation of purchases made. To complete the reconciliation, the cardholder prepares a Log listing:

- Transaction dates
- Vendors
- Transaction amounts
- Description of purchases
- Fund/center/account of expenditures
- Work Orders/Projects, if applicable

After reconciliation, the cardholder attaches all original receipts, signs and dates the Log, and submits it to a supervisor for review and approval. The supervisor then signs and dates the Log as evidence of review and approval of expenditures. The entire packet is then forwarded to the Purchasing Division (Purchasing) where the Financial Services Technician audits the Logs and attached documentation. When the payment is due each month, one electronic transfer is made to pay all Cards issued to the City. Purchases are recorded to the appropriate work area based on a default fund/center/account that was set up when the Card was approved. If a transaction needs to be reflected in a different center or account, the cardholder must complete a Request for Adjustment and send the original to Accounting and a copy to Purchasing.

¹ Prior to July 2007, the vendor for this Program was American Express.

² Transaction limits are the amounts that could be spent for a single transaction.

³ Cycle limits are the total amounts that could be charged to a Purchasing Card during a billing cycle.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of this audit was to verify compliance with City procurement rules and regulations. The scope was limited to expenditures made during calendar year 2007. To complete the work, we reviewed applicable ARs and the Purchasing Card Guide and interviewed the Financial Services Technician to obtain additional understanding of the Procurement Card process.

We made a random selection of 10 cardholders from three different months during the year (February, July, and September 2007) and reviewed all supporting documentation if the cardholder had made purchases during that month. One selection was abandoned during testing because documentation submitted by the cardholder had been returned by the Financial Services Technician responsible for the Program for correction. As a result, we tested 29 Logs with 181 transactions totaling approximately \$33,300. Each Log was reviewed to verify:

- Required information was submitted and cardholders/supervisors adhered to requirements.
- Supporting documentation was attached for expenditures.
- Reconciliations were submitted timely.

Each transaction was reviewed to verify:

- Purchases were within the stated limit for authorized goods and not structured to avoid per transaction limits (i.e., split transactions).
- An original, detailed receipt was present.
- Required documentation and supporting detail was submitted when food was purchased and appropriate authorization was obtained if a restricted item was purchased.

The audit work was conducted in accordance with generally accepted government auditing standards as they relate to expanded scope auditing in a local government environment and as required by Article III, Scottsdale Revised Code, Section 2-117, *et seq.* The survey work took place in April and audit testing was completed in October with Gail Crawford performing the work.

APPENDIX A – MANAGEMENT RESPONSE

Memo

To: Cheryl Dreska, City Auditor
From: Monroe Warren, Purchasing Director *MCW*
Date: December 3, 2007
Re: Purchasing Card Program audit No. 0702

The attached action plan is in response to Audit No. 0702 relating to the Purchasing Card Program. We concur with the audit.

Purchasing always appreciates the periodic audits of the Purchasing Card program. These audits help us maintain accountability of the program and provide valuable insight. The success of this program begins with the cardholder and their manager. These periodic audits help continue that success.

cc: Jan Dolan, City Manager
Neal Shearer, Assistant City Manager
Craig Clifford, Financial Services General Manager
Richard Chess, Accounting & Tax Audit Director

**ATTACHMENT 1 – AMERICAN EXPRESS STATEMENT ENDING
FEBRUARY 14, 2007**



**Office of the
City Auditor**

7440 East First Avenue
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May 2, 2007

To: Monroe Warren, Purchasing Director

From: Cheryl Dreska, City Auditor

A handwritten signature in cursive script, appearing to read "Cheryl", is written over the printed name "Cheryl Dreska".

Procurement Card Program, Audit No. 0702

The Council approved Audit Plan for calendar year 2007 includes three random audits of procurement card usage to verify compliance with requirements. The first audit has been completed and this memo serves to transmit the results. To complete the audit, a random selection of ten cardholders was made from the American Express statement ending February 14, 2007. Each cardholder in the sample complied with requirements to maintain a Transaction Log (Log) with appropriate documentation for purchases. For a perspective on volume, the audit included 51 transactions with a combined value of slightly over \$6,500. The following is a summary of the results:

- Logs were dated, signed by the cardholder as well as by the supervisor, and processed, with the exception of three instances, within stated timeframes. In our view, these exceptions were immaterial and each situation was discussed with the Financial Services Technician responsible for the Program.
- The original American Express statement and original, detailed receipts were attached to all Logs reviewed; transaction totals on the Logs agreed to the attached statement.
- For the transactions reviewed, there was no appearance of purchases split to avoid limits, food purchases were documented appropriately, and documentation was attached to evidence required authorization when necessary (e.g., software or hardware purchases).

A comprehensive report will be prepared when the remaining random audits are completed and if future audits identify potential areas for improvement, you will be asked to outline proposed solutions in a management response. The response and the interim reports will be included in a final report issued to the City Council.

cc Craig Clifford, Financial Services General Manager
Carol Landrum, Financial Services Technician
Audit Admin File

ATTACHMENT 2 – BANK OF AMERICA STATEMENT ENDING JULY 4, 2007



**Office of the
City Auditor**

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September 10, 2007

To: Monroe Warren, Purchasing Director

From: Cheryl Dreska, City Auditor *Cheryl*

Procurement Card Program, Audit No. 0702

The Council approved Audit Plan for calendar year 2007 includes three random audits of procurement card usage to verify compliance with requirements. The second audit has been completed and this memo serves to transmit the results. To complete the audit, a random selection of ten cardholders was made from the Bank of America statement ending July 4, 2007. One cardholder's Transaction Log (Log) was unavailable at the time of the test, thus reducing the sample size to nine. Each cardholder in the sample complied with requirements to maintain a Log with appropriate documentation for purchases. For a perspective on volume, the audit included 73 transactions with a combined value of slightly over \$15,500. The following is a summary of the results:

- Logs were dated, signed by the cardholder as well as by the supervisor, and processed within stated timeframes.
- The original Bank of America statement and original, detailed receipts were attached to all Logs reviewed; transaction totals on the Logs agreed to the attached statement.
- For the transactions reviewed, there was no appearance of purchases split to avoid limits, food purchases were documented appropriately, and documentation was attached to evidence required authorization when necessary (e.g., software or hardware purchases).
- The Log that was unavailable at the time of the test had been returned to the cardholder for corrections.

A comprehensive report will be prepared when the remaining random audit is completed and if the future audit identifies potential areas for improvement, you will be asked to outline proposed solutions in a management response. The response and the interim reports will be included in a final report issued to the City Council.

cc Craig Clifford, Financial Services General Manager
Carol Landrum, Financial Services Technician
Audit Admin File

**ATTACHMENT 3 – BANK OF AMERICA STATEMENT ENDING
SEPTEMBER 4, 2007**



**Office of the
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October 22, 2007

To: Monroe Warren, Purchasing Director

From: Cheryl Dreska, City Auditor *Cheryl*

Procurement Card Program, Audit No. 0702

The Council approved Audit Plan for calendar year 2007 includes three random audits of procurement card usage to verify compliance with requirements. The third audit has been completed and this memo serves to transmit the results. To complete the audit, a random selection of ten cardholders was made from the Bank of America statement ending September 4, 2007. Each cardholder in the sample complied with requirements to maintain a Transaction Log (Log) with appropriate documentation for purchases. For a perspective on volume, the audit included 57 transactions with a combined value of slightly over \$11,330. The following is a summary of the results:

- Logs were dated, signed by the cardholder as well as by the supervisor, and processed within stated timeframes.
- The original Bank of America statement and original, detailed receipts were attached to all Logs reviewed; transaction totals on the Logs agreed to the attached statement.
- For the transactions reviewed, there was no appearance of purchases split to avoid limits, food purchases were documented appropriately, and documentation was attached to evidence required authorization when necessary (e.g., software or hardware purchases).

A comprehensive report will be prepared and the interim reports will be included in a final report issued to the City Council.

cc Craig Clifford, Financial Services General Manager
Carol Landrum, Financial Services Technician
Audit Admin File